June 29, 1999

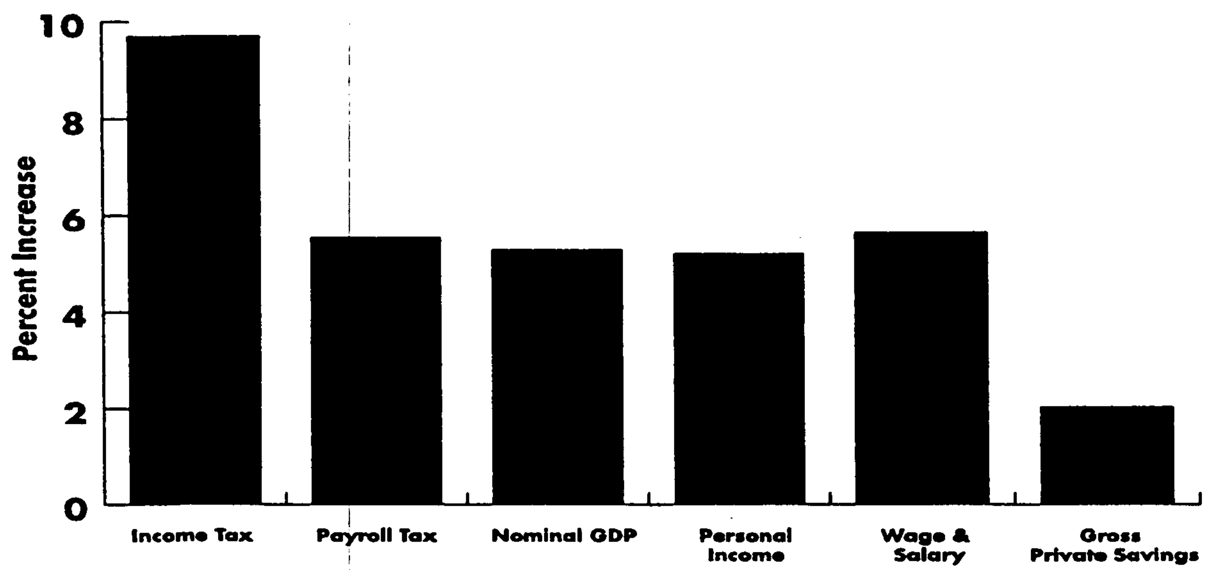
Dramatic Gain in Income Tax Receipts Demands a Cut

Under Clinton, Individual Income Tax Receipts Outstrip Economy's Growth

For some reason, President Clinton and the Democrats just refuse to accept the fact that a burgeoning budget surplus — $5.9 trillion by the Administration's own estimate — can finance a fiscally responsible tax cut. According to the President's Office of Management and Budget estimate from yesterday, the federal budget, *not* including the Social Security surplus, will run a surplus of $1.083 trillion over the next 10 years. The fact that the money is available and that the money was generated by non-Social Security taxes still cannot convince President Clinton that surplus income tax dollars should be returned to those same income taxpayers. Instead according to CBO, President Clinton's FY 2000 budget would raise an additional $96 billion over the next 10 years in new taxes.

What would make President Clinton see the light? How about the fact that under his administration, individual income tax receipts have dramatically outstripped the growth of savings,

Average Annual Percentage Changes Under Clinton
1992-1998



and the growth of payroll taxes? In fact, individual income tax receipts have grown over 75 percent faster than have these other economic variables — the very factors that ultimately allow people to earn and pay taxes — and last year reached 9.9 percent of GDP, *the highest percentage ever recorded.*

The Economy and Individual Income Tax Receipts under Clinton

Using the Administration's own data, it is easy to show the dramatic difference between the growth of the economy and that of individual income tax receipts. Starting from 1992, the year before Clinton took office, and going through 1998, we can chart some basic variables. On the tax side, we use individual income tax receipts — those taxes actually paid by individuals (income and capital gains) — and payroll tax receipts. On the economic side are variables that directly affect families and individuals — increase in gross domestic product, personal income, wages and salaries, and gross private savings. All these are presented in nominal dollars (non-inflation-adjusted dollars) to insure comparability.

THE ECONOMY AND TAX RECEIPTS UNDER CLINTON, 1992-1998
(in billions of dollars)

	Income Tax	Payroll Taxes	Nominal GDP	Personal Income	Wages & Salaries	Gross Priv Savings
1992	476.0	413689	6244.4	5255.7	2986.4	970.7
1993	509.7	428300	6558.1	5481.0	3089.6	979.3
1994	543.1	461475	6947.0	5757.9	3240.7	1030.2
1995	590.2	484473	7269.6	6072.1	3428.5	1106.2
1996	656.4	509414	7661.6	6425.2	3631.1	1114.5
1997	737.5	539371	8110.9	6784.0	3889.8	1141.6
1998	828.6	571838	8511.0	7126.1	4149.9	1090.4

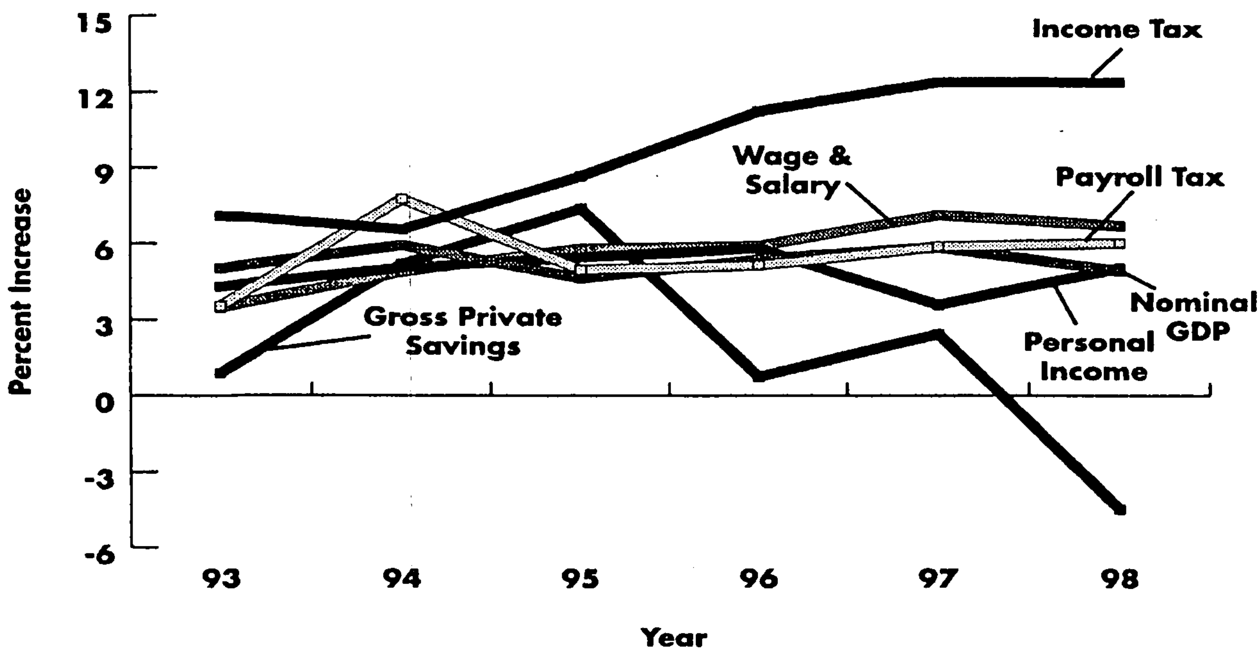
Source: President's FY2000 Budget, Department of Commerce, President's Council of Economic Advisers

The variables are interrelated. How well the economy grows determines how much Americans' wages and personal income will grow. In turn, these determine how much Americans will be able to save and invest — this is important not only to their own personal future well-being but to that of the economy, as well. Without investment today, there will not be growth tomorrow. However, contained within this economic cycle is the government's tax burden. The more taken by Washington in taxes, the less is left to Americans.

Taxes and the Economy: Divergent Growth Under Clinton

Because of their interrelationship, we would expect that the growth of the variables would be similar. For the most part, this is true with the variables concentrated around the growth of the

Annual Percentage Increases Under Clinton



economy. On average during the Clinton years:

- The **nation's economy** has grown at a **5.3 percent annual rate.**

- **Wages and salaries** have grown at **5.6 percent,** and **personal income** has grown at **5.2 percent.**

- Not surprisingly, **payroll taxes** — which form a fixed percentage of a worker's gross income — have grown at **5.6 percent.**

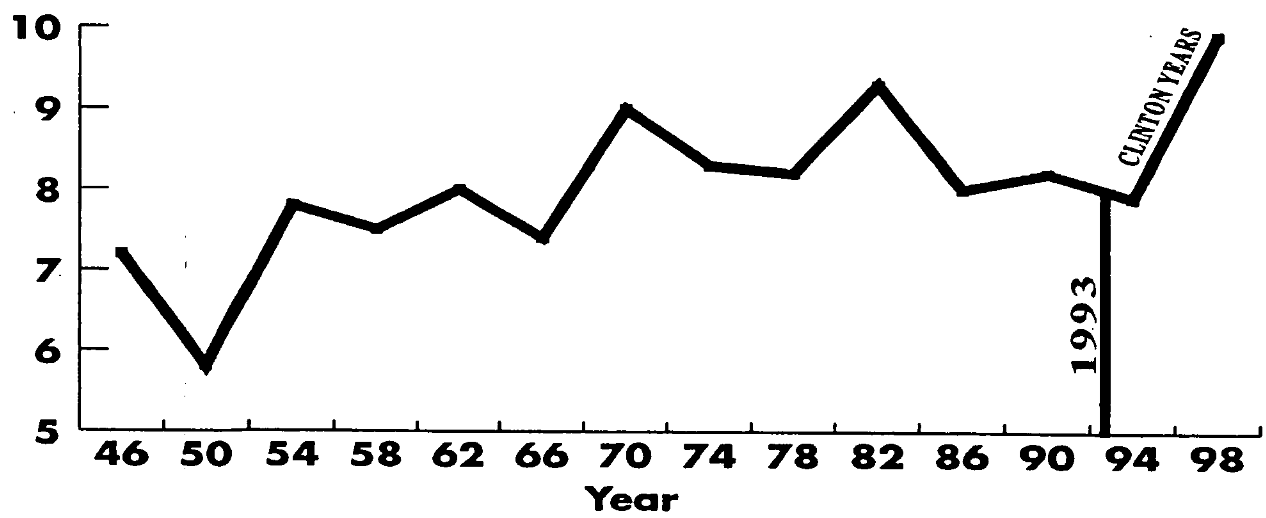
Despite the close fit of these variables, two diverge dramatically from the rest. One is the much-lamented lagging private savings rate:

- **Gross private savings** have grown at a rate of just **2 percent.**

Of course this lag in savings is likely not unrelated to the even more glaring anomaly: the growth in individual income tax receipts. Whether the entire fall in private savings is due to the dramatic increase in individual personal income tax receipts is not clear; however, it is certainly obvious that Americans cannot save what they don't get to keep. And the fact is that Americans are getting to keep proportionately less:

- The **average annual growth in individual income tax receipts** under Clinton is **9.7 percent!**

Individual Income Tax Receipts As A Percentage Of GDP



Source: President's FY 2000 Budget

This growth in individual income tax receipts is fully 75 percent higher than any of the economic variables measured. It is no wonder then that individual income tax receipts as a percentage of GDP are higher now — 9.9 percent — than when Clinton took office (7.9 percent in 1993), than when Carter left office (9 percent in 1980), than when Kennedy took office (7.8 percent), or any time since World War II (7.2 percent in 1946). In fact, according to the Historical Tables presented in President Clinton's latest budget, individual income tax receipts as a percentage of GDP are now at the highest level in American history.

The Need to Cut Taxes

As the figures show, individual income tax receipts have grown dramatically — and dramatically faster — under Clinton than have the underlying economic variables. It is not surprising that this growth has generated the highest ratio of income taxes to GDP in our nation's history.

These facts raise two questions. How long can America withstand the increasing diversion of resources from its private sector to its public sector without suffering an adverse economic impact? And how can President Clinton be so averse to returning this windfall from individual income taxpayers to them?

Liberals will certainly point to the currently robust economy and a progressive tax system in an attempt to justify their appetite for taxes. Yet this short-sightedness demonstrates their own inability to see beyond their selfish spending interests. The current economy is good. However, the current economy was built on earlier investment — investment that was financed through lower government demands on what the private sector earned. Assuredly, some of the "Clinton tax spike" is due to capital gains income, but only a fraction of it. CBO pointed out recently in a study that only about 30 percent of the 1994-1997 "revenue surprise" of unexpected tax receipts was due to capital gains. However, even if all of these unexpected receipts came from capital gains rather than largely from Americans' wages and salaries, the point is that we would still have this diversion of resources from the more productive private sector to the less productive public sector.

The Final Question: Why Does Clinton Oppose Tax Cuts?

Clinton's Washington is taking an increasing share of what America's private sector earns. This does not happen by accident. It happens with the largest tax increase in American history — 1993's $240 billion hike — and with an attitude that, for example, allowed him to label as "selfish" James Gilmore's proposal to cut Virginia's taxes during the 1997 gubernatorial campaign. With this combination of attitude and action, it is perhaps not surprising that Clinton would oppose returning this income tax revenue windfall to income taxpayers.

However, Clinton's predilection toward increasing tax revenue should not obscure the facts. ***Income tax revenues have increased dramatically under President Clinton until they now are at the highest level vis-a-vis GDP in America's history.***

These individual income tax revenues are generating a surplus, separate and totally apart from Social Security's, of $1.08 trillion over the next 10 years, according to OMB.

The means therefore exist to return the income tax revenue windfall to its rightful owners. Yet despite all this evidence, President Clinton is not only opposing cutting income taxes but wants to raise $96 billion more over the next 10 years. For President Clinton, the failure to cut taxes is not for want of evidence, reason, or means. It is from a lack of will itself.

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